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SENT ELECTRONICALLY, BY FAX AND MAIL

December 16, 2002

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Massachusetts Electric Company, D.T.E. 02-79

Dear Secretary Cottrell:

On November 27, 2002, Massachusetts Electric Company ("MECo" or "Company") filed a petition with the Massachusetts Department of Telecommunications and Energy ("Department") seeking approval of changes to a number of its rates. In particular, the Company proposed to:

- increase its standard offer rate¹ (from \$0.042 to \$0.047/kWh);
- decrease its default service adjustment factor (from \$0.00083 to \$0.00010/kWh);
- increase its transition charge rate² (from \$0.00839 to \$0.00893/kWh);
- implement the statutory decrease to its renewable technology charges (from \$0.00075/kWh to \$0.00050/kWh);
- implement a standard offer adjustment credit of \$0.00062³;

¹ This change is the result of a scheduled change in standard offer rates approved by the Department in D.P.U./D.T.E. 96-25.

² This charge is a pass through of NEP and Montaup contract termination charges as approved by FERC adjusted for prior period under and over recoveries on a class specific basis. Exh. TMB-10

³ The Company's standard offer service tariff specifies that over-collections of standard offer

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- increase its average transmission rates (from \$0.00535 to \$0.00610/kWh); and to
- implement certain tariff changes that could allow significant costs to be shifted from distribution rates to standard offer and default service rates.

Pursuant to the Department's Notice of Filing and Request for Comments, the Attorney General files this letter as his Initial Comments on the Company's filing. In these comments, the Attorney General asks the Department to initiate a formal investigation into the reconciliation filing, the reasonableness of the Company's recovery of default service cost deferrals related to a class action settlement concerning the Company's mis-classification of standard offer customers, and the potential for cost shifting that could result from the implementation of its proposed tariff changes.

The Company proposes to recover from all its retail customers more than \$2 million related to the settlement of a class action suit concerning the Company's mis-classification of standard offer customers as default service customers and charging these customers the higher default service rate. The reclassification and billing adjustments resulted in a standard offer over-collection of approximately \$7 million and a corresponding default service under-collection of approximately \$9 during the period April -September 2002, (netting the under- and over-collections produces the \$2 million the Company credited to the affected customers). Testimony of Theresa M. Burns, pp. 9-10. The Company appears to have included the recovery of this \$2 million in its filing. The Department should investigate the reasonableness of these costs prior to allowing recovery by the Company.

On November 1, 2002, the Company proposed new Standard Service Cost Adjustment Provision and Default Service Adjustment Provision tariffs to "...allow it to capture any costs it incurs in providing standard service, in addition to payments to standard service providers, in its standard service reconciliation." *Id.*, p. 11. The November proposal was triggered specifically by the anticipation of Renewable Portfolio Standards costs for which all electric utilities will be responsible for beginning in January 2003 and the Generation Information System costs being billed by ISO-NE. The proposed tariff language would allow for "...any other costs reasonably incurred as a result of the Company's provision of Standard Service/Default Service." Exhibit TMB-26.

The Department is in the process of determining whether electric utilities should recover costs currently recovered through base distribution rates (bad debt and certain administrative costs) through default service charges⁴. See D.T.E. 02-40. The issue of costs related to

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costs are to be refunded to all customers. Tariff M.D.T.E. 981-A

⁴ The Department does not address the allocation of costs related to the provision of Standard Offer Service in the pending generic proceeding. See D.T.E. 02-40. However, in its recent Fitchburg Gas and Electric Light Company decision the Department allowed the Company to recover generation service related bad debt costs through the standard offer and default service reconciliation mechanisms and

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generation services, both standard offer and default service, are common to all electric utilities and as such should be addressed generically. The Department should reject the tariffs as filed and open a generic investigation to address the issues regarding allowable costs for standard offer service and require that the Company to wait for a final order in D.T.E. 02-40 regarding default service. In addition, the Company is operating under a distribution rate plan settlement. *See* D.T.E. 99-47. To the extent that any costs may be shifted to or from default and standard offer rates, the Company must make corresponding adjustments to its distribution rates.

For these reasons, the Department should open an investigation into the Company's reconciliation filing to allow review of all costs, revenues and the assumptions underlying the proposed rates and reject the proposed standard offer and default service cost adjustment provision tariff changes.⁵

Respectfully,

Joseph W. Rogers
Division Chief, Utilities Division

cc: Thomas Robinson, Esq.
Amy Rabinowicz, Esq.

⁴(...continued)

required that the Company seek recovery of certain generation related costs through standard offer and default service rates. D.T.E. 02-24/25, pp. 170-176.

⁵ The Company has proposed changes to its supplier terms and conditions tariff to incorporate the payment allocation procedures ordered by the Department in D.T.E. 01-28 (Phase II). These changes should be incorporated in the Company's tariffs.